

§ 58-10-775. Contents of corporate governance annual disclosure.

(a) The insurer or insurance group shall have discretion over the responses to the CGAD inquiries, provided the CGAD shall contain the material information necessary to permit the Commissioner to gain an understanding of the insurer's or insurance group's corporate governance structure, policies, and practices. The Commissioner may request additional information that he or she deems material and necessary to provide the Commissioner with a clear understanding of the corporate governance policies, the reporting or information system, or controls implementing those policies.

(b) Notwithstanding subsection (a) of this section, the CGAD shall be prepared consistent with this Part. Documentation and supporting information shall be maintained and made available upon examination or upon request of the Commissioner.

(c) The insurer or insurance group shall be as descriptive as possible in completing the CGAD, with inclusion of attachments or example documents that are used in the governance process that may provide a means to demonstrate the strengths of their governance framework and practices.

(d) The CGAD shall describe the insurer's or insurance group's corporate governance framework and structure, including consideration of all of the following:

- (1) The board of directors and various committees thereof ultimately responsible for overseeing the insurer or insurance group and the level at which that oversight occurs, such as the ultimate control level, intermediate holding company level, or legal entity level. The insurer or insurance group shall describe and discuss the rationale for the current board of directors' size and structure.
- (2) The duties of the board of directors and each of its significant committees and how they are governed, such as by bylaws, charters, or informal mandates.
- (3) How the board of directors' leadership is structured, including a discussion of the roles of chief executive officer and chairman of the board of directors within the organization.

(e) The insurer or insurance group shall describe the policies and practices of the most senior governing entity and significant committees thereof, including a discussion of each of the following factors:

- (1) How the qualifications, expertise, and experience of each board of directors member meet the needs of the insurer or insurance group.
- (2) How an appropriate amount of independence is maintained on the board of directors and its significant committees.
- (3) The number of meetings held by the board of directors and its significant committees over the past year as well as information on director attendance.
- (4) How the insurer or insurance group identifies, nominates, and elects members to the board of directors and its committees, including information on all of the following:
 - a. Whether a nomination committee is in place to identify and select individuals for consideration.
 - b. Whether term limits are placed on directors.
 - c. How the election and reelection processes function.
 - d. Whether a board of directors' diversity policy is in place and, if so, how it functions.
- (5) The processes in place for the board of directors to evaluate its performance and the performance of its committees, as well as any recent measures taken to improve performance, including any board of directors or committee training programs that have been put in place.

(f) The insurer or insurance group shall describe the policies and practices for directing senior management, including a description of each of the following factors:

- (1) Any processes or practices, such as suitability standards, to determine whether officers and key persons in control functions have the appropriate background, experience, and integrity to fulfill their prospective roles, including both of the following:
 - a. Identification of the specific positions for which suitability standards have been developed and a description of the standards employed.
 - b. Any changes in an officer's or key person's suitability as outlined by the insurer's or insurance group's standards and procedures to monitor and evaluate those changes.
- (2) The insurer's or insurance group's code of business conduct and ethics, including information regarding compliance with laws, rules, and regulations as well as proactive reporting of any illegal or unethical behavior.
- (3) The insurer's or insurance group's processes for performance evaluation, compensation, and corrective action to ensure effective senior management throughout the organization, including a description of the general objectives of significant compensation programs and what the programs are designed to reward. The description shall include sufficient detail to allow the Commissioner to understand how the organization ensures that compensation programs do not encourage or reward excessive risk taking. Elements to be discussed include the following:
 - a. The board of directors' role in overseeing management compensation programs and practices.
 - b. The various elements of compensation awarded in the insurer's or insurance group's compensation programs and how the insurer or insurance group determines and calculates the amount of each element of compensation paid.
 - c. How compensation programs are related to both company and individual performance over time.
 - d. Whether compensation programs include risk adjustments and how those adjustments are incorporated into the programs for employees at different levels.
 - e. Any clawback provisions built into the programs to recover awards or payments if the performance measures upon which they are based are restated or otherwise adjusted.
 - f. Any other factors relevant in understanding how the insurer or insurance group monitors its compensation policies to determine whether its risk management objectives are met by incentivizing its employees.
- (4) The insurer's or insurance group's plans for chief executive officer and senior management succession.

(g) The insurer or insurance group shall describe the processes by which the board of directors, its committees, and senior management ensure an appropriate amount of oversight to the critical risk areas impacting the insurer's business activities, including a discussion of all of the following:

- (1) How oversight and management responsibilities are delegated between the board of directors, its committees, and senior management.

- (2) How the board of directors is kept informed of the insurer's strategic plans, the associated risks, and steps that senior management is taking to monitor and manage those risks.
- (3) How reporting responsibilities are organized for each critical risk area. The description should allow the Commissioner to understand the frequency at which information on each critical risk area is reported to and reviewed by senior management and the board of directors. This description may include any of the following critical risk areas of the insurer:
 - a. Risk management processes.
 - b. Actuarial function.
 - c. Investment decision-making processes.
 - d. Reinsurance decision-making processes.
 - e. Business strategy/finance decision-making processes.
 - f. Compliance function.
 - g. Financial reporting/internal auditing.
 - h. Market conduct decision-making processes. (2019-57, s. 3(a).)